

Message Text

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ACTION ARA-10

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FM AMEMBASSY PANAMA

TO SECSTATE WASHDC 9125

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PANCANAL

AMEMBASSY GUATEMALA

C O N F I D E N T I A L PANAMA 6462

GUATEMALA FOR ROCAP

EO 11652: GDS

TAGS: ECON, EFIN, PN

SUBJECT: PANAMA'S ECONOMY STAGNATING: GOP IN SEVERE FINANCIAL BIND

REF: (A) PANAMA 9111, (B) PANAMA 6361

1. SUMMARY: A MAJOR ECONOMIC AND FINANCIAL CRISIS IS THREAT-
ENING PANAMA. THE GOP IS BEING FORCED TO CONSIDER BASIC CORR-
ECTIVES SUCH AS EASING THE LABOR CODE AND RAISING CONSUMER
TAXES, WHICH COULD PROVE POLITICALLY EXPLOSIVE.

2. MOST KEY ECONOMIC INDICATORS FOR THE 1976 SECOND QUARTER
WERE DOWN RELATIVE TO BOTH THE PRECEDING AND YEAR AGO
QUARTERS. MANUFACTURING WAS OFF 6 PERCENT FROM THE FIRST QUARTER.
VALUE OF CONSTRUCTION PERMITS PLUMMETED 42 PERCENT FROM THE FIRST
QUARTER'S ALREADY DEPRESSED LEVEL AND IS LITTLE MORE THAN
ONE THIRD OF THE YEAR AGO LEVEL. SECOND QUARTER IMPORTS AND
EXPORTS WERE DOWN FROM A YEAR AGO. UNEMPLOYMENT IN PANAMA
CITY HAS RISEN TO 9 PERCENT FROM 5 PERCENT LAST YEAR AT THIS TIME;
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A MINISTRY OF COMMERCE SOURCE ESTIMATES 30 PERCENT UNEMPLOYMENT

IN COLON. DOMESTIC BANK CREDIT OUTSTANDING WAS BELOW THE FIRST QUARTER LEVEL. TAX REVENUES ARE RUNNING BEHIND A YEAR AGO, SUBSTANTIALLY BELOW BUDGETED LEVELS. TO ADD TO PANAMA'S ECONOMIC WOES, AGRICULTURE--ABOUT THE ONLY BRIGHT SPOT IN THE ECONOMY SOME MONTHS AGO--IS NOW SUFFERING SUBSTANTIAL CROP DAMAGE AND LOWERED OUTPUT (SEE REFTEL B) AS A RESULT OF DROUGHT CONDITIONS OVER THE PAST FOUR MONTHS. PRESENT POLITICAL UNREST IS SURE TO EXACERBATE THE OVER-ALL SITUATION.

3. THIS CONTINUED DETERIORATION THROUGHOUT THE PANAMANIAN ECONOMY REFLECTS THE FAILURE OF GOP POLICIES TO DATE TO EFFECTIVELY STIMULATE PRIVATE SECTOR INVESTMENT, DESPITE RECENT GOP GESTURES TO THE PRIVATE SECTOR AND THE APPAREMNT AVAILABILITY OF PLENTIFUL CREDIT. PRIVATE SECTOR REACTION INDICATES THAT THE ECONOMIC MALAISE IS MORE STRUCTURAL THAN CYCLICAL. STAGNATION THUS IS LIKELY TO PERSIST UNTIL THE GOP UNDERTAKES BASIC ECONOMIC POLICY CHANGES WHICH STIMULATES A NEW GENERATION OF INVESTMENTS. ONE POLICY MEASURE WOULD PROBABLY HAVE TO BE EASING LABOR CODE CONSTRAINTS ON HIRING AND FIRING, WITH THE CONCOMITANT POLITICAL EFFECTS ON GOP RELATIONS WITH LABOR AND THE LEFT (SEE REFTEL A).

4. AN EQUALLY PRESSING PROBLEM IS THE SHORTFALL IN CENTRAL GOVERNMENT REVENUES WHICH IS FORCING CUTBACKS IN CURRENT EXPENDITURES. THE GOP HAS ALREADY USED LOANS TO COVER CURRENT OUTLAYS AND MAY REQUIRE ADDITIONAL FUNDS FROM THE PRIVATE BANKING SECTOR TO AVOID DEBT SERVICE DEFAULTS OR MORE CUTBACKS IN SUCH POLITICALLY SENSITIVE AREAS AS DEFENSE AND EDUCATION. THIS WOULD SERIOUSLY UNDERMINE CREDITOR CONFIDENCE IN THE GOP. A NEW TAX PACKAGE THAT INCLUDES HIGHER CONSUMER TAXES (AS CURRENTLY BEING CONSIDERED) WILL BE ESSENTIAL TO STRENGTHEN THE GOP FINANCIAL STRUCTURE. THIS TOO WILL BE POLITICALLY DIFFICULT.

5. A MORE DETAILED REPORT WILL FOLLOW COVERING PANAMA'S CURRENT ECONOMIC AND FINANCIAL SITUATION.

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